STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

METHODS OF PAYMENT OF REASONABLE COSTS -
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E. Per Diem Base Rate

Per diem facilities (freestanding psychiatric hospitals, freestanding rehabilitation hospitals, and distinct part psychiatric units of general hospitals) will be rebased biennially. The per diem base rate is calculated in the same manner as the DRG base price except that calculations are per day and no case mix adjustment is used (see III, B. DRG Base Price).

10/01/95 | Facilities must have been open nine months before the beginning of the rate setting period for their cost and paid claims data to be used in the rebasing process.

If a hospital has more than a single cost reporting period during the base period, data from all reporting periods within the base period will be added and a single operating ratio computed. If the ratio is greater than 1.0, a ratio of 1.0 will be used. The cost
10/01/95 | report information will be reviewed at the time of cost report acceptance. Only the hospital's individual cost and paid claims data used in the per diem rebasing process will be sent to the hospital along with its rate notice.

Inflation for the rebased per diem will be computed using the Data Resources, Inc. PPS-Type Hospital Market Basket Index. For hospitals with cost reporting periods ending other than the end of a quarter, the inflation update for the closest quarter will be used.

1. Freestanding Rehabilitation Hospitals

For freestanding rehabilitation hospitals, the per diem base rate is hospital specific without limits or adjustments.

2. Distinct Part Rehabilitation Units

For distinct part rehabilitation units, the per diem base rate is hospital specific without limits or adjustments.

3. Freestanding Psychiatric Hospitals

For freestanding psychiatric hospitals, the per diem base rate is hospital specific. The per diem base rate is subject to a ceiling which will be 150% of the statewide average per diem rate for freestanding psychiatric hospitals (weighted by days in the base period and adjusted for teaching and area costs- see III, B. DRG Base Price). The adjusted per diem rate for any hospital with a per diem rate less than 70% of the statewide average will be increased to 70% of the statewide average.

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that had base year data from 1990-91 are sorted in ascending order of their standardized rate. The standardized rate for the first unit after 50% of the units have been listed becomes the statewide 50th percentile.

The standardized rate is:

$$\frac{\textit{Hospital Specific Per Diem Rate}}{\textit{Area Cost Adjustor x Indirect Education Adjustor}}$$

The area wage adjustors and the formula for the area cost adjustor are the same as those used for the DRG price. The indirect education adjustors and formula are the same as those used for the DRG base price (see section III-B).

Once the 50th percentile has been determined, the statewide limit is set at 110% of the 50th percentile and adjustors are applied for area wage cost differences and for the hospital's indirect education to create the limit for each unit. The per diem base rate is then the lesser of the unit specific base rate or the adjusted limit.

The formula used for the FY 93/94 indirect education adjustor is the same as the base year except available beds are limited to beds in the distinct part psychiatric unit and interns and residents are only those allocated to the distinct part psychiatric unit.

The per diem base rate is then the lesser of the unit specific base rate or the adjusted limit. The adjusted limit is:

110% x 50th Percentile x Hospital's Indirect Education Adjustor x Area Cost Adjustor

4. Distinct Part Rehabilitation Units

Effective for services on and after October 1, 1991, the operating payment for services provided to Medicaid recipients in distinct part rehabilitation units will be made at full cost using Medicare principles of allowable costs.

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5. Hospitals outside of Michigan

Distinct part psychiatric units not located in Michigan and enrolled in the Michigan Medicaid program are reimbursed using a per diem rate. The per diem rate is the average (weighted by days during the base period) base per diem rate for distinct part psychiatric units located in Michigan and adjusted only for inflation. The rate is limited to a maximum of 110% of the 50th percentile of base per diem.

Freestanding psychiatric hospitals not located in Michigan and enrolled in the Michigan Medicaid program are reimbursed using a per diem rate. The per diem rate is the average (weighted by days during the base period) base per diem for freestanding psychiatric hospitals located in Michigan adjusted only for inflation.

6. Medical/Psychiatric Distinct Part Units

Upon a hospital's written request and assurances to the Medicaid Program, a Medicare recognized distinct part psychiatric unit shall be designated under Medicaid as a medical/psychiatric unit if, in addition to the regular criteria for psychiatric admissions, the admission criteria for the unit includes requirements that all patients either:

- have a medical condition that makes treatment in a standard psychiatric unit inappropriate or unrealistic; or
- need extensive medical diagnostic evaluation.

On the October 1st immediately after one full hospital cost report year of operation under the conditions specified above, if a hospital has no paid claims from the medical/psychiatric unit in its base year, a special hospital specific per diem rate will be computed from filed cost data for the unit. The special per diem will remain in effect (with the inflationary updates and disproportionate share adjustments that apply to regular distinct part psychiatric units) until the unit has paid claims and cost data to compute a per diem rate as part of the normal rebasing process.

To compute the special per diem rate, the MSA will use the methodology below based on filed cost report data. The hospital must exclude start up costs in determining the Medicaid Medical/Psychiatric Unit costs.

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1.	Medical/Psychiatric Unit - Medicaid Costs	
2.	Medicaid Capital & Direct Medical Education Costs	
3.	Medicaid Operating Costs (Line 1 - Line 2)	
4.	Unit Occupancy Rate (Based on Available Licensed Beds)	
5.	Low Occupancy Adjustment (If Line 4 < 75%, Line 4 / .75)	
6.	Adjusted Medicaid Operating Costs (Line 3 X Line 5)	
7.	Medicaid Days	
8.	Medicaid Special Per Diem (Line 6 / Line 7)	

10-1-93

7. Rebasing

Effective October 1, 1993, per diem facilities will be rebased (freestanding psychiatric hospitals , freestanding rehabilitation hospitals, and distinct part psychiatric units of general hospitals). The methodology will follow the formula used to rebase these facilities in 1991 with the following exeptions.

The base year will be hospital cost reporting periods ending between October 1, 1990 and September 30, 1991. If hospitals have more than one cost reporting period ending within this range, data from the two periods will be added and a single operating ratio computed. If the ratio is greater than 1.00, a ratio of 1.00 will be used.

Inflation for the rebased per diem rates will be computed using the Data Resources, Inc. PPS- Type Hospital Market Basket index, which is as follows. For hospitals with cost reporting periods ending other than the end of a quarter, the inflation update for the closest FYE quarter will be used.

FYE	to FY 91	to FY 92	to FY 93	to FY 94
12/31/90	1.030	1.047	1.043	1.043
3/31/91	1.019	1.047	1.043	1.043
6/30/91	1.009	1.047	1.043	1.043
9/30/91	1.000	1.047	1.043	1.043

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To compute the special per diem rate, the MSA will use the methodology below based on filed cost report data. The hospital must exclude start up costs in determining the Medicaid medical/psychiatric unit costs.

1. Medical/Psychiatric - Medicaid Costs	
2. Medicaid Capital & Direct Medical Education Costs	
3. Medicaid Operating Costs (Line 1 - Line 2)	
4. Unit Occupancy Rate (Based on Available Licensed Beds)	
5. Low Occupancy Adjustment (If Line 4 < 75%, Line 4 / .75)	
6. Adjusted Medicaid Operating Costs (Line 3 X Line 5)	
7. Medicaid Days	
8. Medicaid Special Per Diem (Line 6 / Line 7)	

The per diem rate will be the larger of the special per diem calculated above or the rate that would be paid to a regular distinct part psychiatric unit in the hospital. In no event will the per diem rate be allowed to exceed 125% of the statewide average per diem rate for regular distinct part psychiatric units after adjustment for area costs and indirect education.

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F. New Hospitals and Units

A new hospital or unit is one for which no Michigan Medicaid Program cost or paid claims data exists during the period used to establish hospital specific base rates. Hospitals that experience a change of ownership or that are created as the result of a merger are not considered new hospitals.

1. General hospitals

The DRG base price for new general hospitals will be the truncated mean DRG base price until new DRG base prices are calculated for all hospitals using data from time periods during which the new hospital provided services to Medicaid patients. The base price will be adjusted for area cost differences using the factors described above.

An adjustor for indirect teaching costs will be used, if applicable, when new indirect education adjustors are calculated for all hospitals using data from time periods during which the new hospital provided services to Medicaid patients.

2. New Freestanding Rehabilitation Hospitals

10-1-91

New freestanding rehabilitation hospitals are reimbursed using the statewide average (weighted by days during the base period) per diem rate for their type of provider. The base rate will be adjusted for area cost differences using the factors described above.

A hospital specific rate will be established when new rates are calculated using data from time periods during which the new hospital provided services to Medicaid patients.

3. New Freestanding Psychiatric Hospitals

10-1-91

New freestanding psychiatric hospitals are reimbursed using the statewide average (weighted by days during the base period) per diem rate for their type of provider. The base rate will be adjusted for area cost differences using the factors described above.

A hospital specific rate will be established when new rates are calculated using data from time periods during which the new hospital provided services to Medicaid patients.

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4. New Medicare Certified Distinct Part Psychiatric Units

The per diem base rate for new Medicare certified distinct part psychiatric units of general hospitals is the average (weighted by days during the base period) per diem rate for distinct part psychiatric units located in Michigan. The rate is limited to a maximum of 110% of the 50th percentile of base per diem. The base rate will be adjusted for area cost differences, and for hospital indirect education costs using the factors described above.

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This rate methodology will be used for the new unit until new per diem base rates are calculated for all units using data from time periods during which the new hospital provided services to Medicaid patients. Upon written request by the provider, however, a new per diem rate, based on cost, may be calculated if the hospital submits a cost report including one full year of cost information for the distinct part psychiatric unit. The new rate will become effective on the first day of the next quarter, twenty days after the latter of the request date or the date of acceptance of the cost report by MSA. This rate will be based on the cost report containing one full year of cost information for the new distinct part psychiatric unit. All other information will be the same as was used in the last per diem rebasing and the cost will be subject to the same limitations and adjustments as are appropriate for other distinct part psychiatric units during the same rate period. For the state fiscal year ending September 30, 1994, the new units who qualify, may request this change effective January 1, 1994, if written request is received by June 30, 1994.

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If a hospital at least doubles the number of licensed beds in its distinct part psychiatric unit and the number of licensed beds increases by at least 20, the entire unit will be treated as a new distinct part psychiatric unit for determining the per diem rate. In order for this provision to apply, the hospital must request in writing that the unit be treated as a new unit. The new unit rate will become effective on the date that the number of beds doubles and the increase is at least 20 beds, or the date on which the request is received by the MSA, whichever is later.

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G. Other Reimbursement Methods

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1. Sub acute Substance Abuse (Deleted)

2. Sub acute Ventilator-dependent Care

Reimbursement for services provided to patients in sub acute ventilator-dependent care units is through a prospective per diem rate. The per diem rate covers the costs of capital and direct medical education, routine accommodations, regular ancillary services, and regular professional services.

The per diem rate is established using a variety of data including: cost report data (the sub acute ventilator-dependent care unit must be treated as a separate distinct part), the rate of utilization in the unit, inflation, professional costs, the rates paid to ventilator-dependent units in long term care facilities, and the cost and availability of suitable alternative placements. Effective October 1, 1991, the per diem rate is set to not exceed the per diem rate that would be paid for outlier days under DRG 483 (Tracheostomy Except for Mouth or Pharynx Disorder).

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If a need for the services exists, the rate is specified in a contract offer from the Medicaid Program to the hospital.

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3. Michigan State-owned Hospitals

Reimbursement to Michigan state-owned hospitals is allowable costs under Medicare principles of reimbursement as freestanding psychiatric hospitals exempt from the prospective payment system.

4. Hospitals Not Enrolled

Non-enrolled hospitals located outside the State of Michigan are reimbursed on a percentage of charge basis for covered services. That percentage is based on an estimate of Michigan statewide ratio of cost to charge.

If the total inpatient charges for an episode of care exceeds $100,000, a hospital outside of Michigan that is not enrolled in the Michigan Medicaid Program may be reimbursed for allowable costs using the hospital's actual cost to charge ratio. This exception applies on an episode by episode basis and requires that the hospital submit a statement from its chief financial officer supplying the appropriate cost to charge ratio for the episode.

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5. TEFRA Option for Freestanding Rehabilitation

A TEFRA limited cost-based reimbursement system is an option available only to freestanding rehabilitation hospitals as an alternative to per diem reimbursement.

To qualify, a hospital must be recognized by Medicare as a freestanding rehabilitation hospital. This option is not available to distinct part rehabilitation units.

Prior to the beginning of each fiscal year, each freestanding rehabilitation hospital may choose to be reimbursed under the Medicaid TEFRA limited cost based reimbursement during its next fiscal year. A hospital which fails to select TEFRA reimbursement will be reimbursed under the prospective per diem methodology. The reimbursement method cannot be changed by the hospital during its fiscal year.

Reimbursement under the TEFRA limited cost-based methodology uses a calculated base year limit per discharge updated with the TEFRA factors for Medicare exempt facilities. Base year Medicaid inpatient operating cost must be calculated using the hospital's last Medicaid final settlement for its fiscal year ending between September 30, 1982 and September 29, 1983. Medicaid inpatient operating cost is:

T19 Cost - T19 Fed Dis - T19 Cap - T19 DME

T19 Cost =	Total Medicaid Inpatient Cost (Does not include Medicaid Inpatient Hospital Based Physician Costs)
T19 Fed Dis =	Medicaid Federal Disincentive (223 limit)
T19 Cap =	Medicaid Inpatient Capital Cost
T19 DME =	Medicaid Inpatient Direct Medical Education Cost

Base Year Medicaid Operating Cost Per Discharge is calculated using Medicaid discharges as contained on the 1982-83 cost report.

If hospitals have no 1982-83 base year cost report, the base year data will be the first full fiscal year's final audited cost data after that date.